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5 DEC 1966

MEMORANDUM FOR: Chief, Technical Accounting Staff
Chief, Financial Analysis Staff
Chief, Finance Division
Chief, Fiscal Division
Chief, Machine Records Division
Chief, Industrial Contract Audit Division

SUBJECT : Financial Advisory Committee Report

1. Attached is a copy of the Financial Advisory Committee report on "Agency Operating Cost Budget Proposed for Fiscal Year 1962."
2. Please review the report for the effect the proposed policies will have on Comptroller activities. Submit your comments in writing by 14 December 1966 and be prepared to discuss them at a Financial Policy Group meeting to be held in my office at 2 p.m. on 15 December 1966.



Acting Comptroller

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ORIGINATOR FOR: Comptroller

REF ID: A6500
SUBJECT: Financial Management Program Highlights

1. For several years the Office of the Comptroller has been working on its financial management program. There are many aspects of the program that have led or we believe will lead to better financial management in this Agency. The highlights are as follows:

a. In the accounting field:

(1) Financial property accountability.

(2) Accrual accounting within certain limitations.

(3) Cost accounting for both direct and indirect costs.

b. In the budget field:

(1) the development of procedures and format for internal operating cost-based budgets.

(2) Raising the level of allotments.

c. Miscellaneous:

(1) Improved procedures and methods for better financial control.

(2) Development of a central property procurement control system.

(3) Development of a cost reporting system.

(4) Conversion to an automatic data processing system.

(5) Conducting conferences and training courses in accounting and budgeting.

(6) Improved financial coding.

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SUBJECT: Financial Management Program Emphasis

2. The major emphasis during the last year has been on cost accounting and cost-based budgeting. Much effort has been expended on the development of procedures, format and accrual costing often at the expense of improvements in other fields such as obligations and financial reporting. At present, the situation concerning costing could be summarized as follows:

- a. The Agency has partially complied with Public Law 663 by developing a cost accounting system and internal cost-based budget procedures and format.
- b. The Bureau of the Budget and the Congress have not expressed any interest in pushing the cost-based budget.
- c. The offices have expressed an interest in cost information and, in some cases, to a rather extensive degree. However, because the budgets at all levels (the Agency, Bureau of the Budget, and the Congress) are expressed in terms of obligations, the offices find it desirable to keep and use obligation data at the cost center level.
- d. Serious problems in connection with coding and accrualing were encountered in our attempt to prepare an accurate cost report during Fiscal Year 1961. As a result, review of the cost report to determine its adequacy and to secure suggestions for improvement was postponed until this fall. It is planned to issue the Fiscal Year 1961 cost report sometime after 31 October.
- e. The workload involved in accruing costs and issuing cost reports is burdensome and a good job cannot be accomplished with the present number of personnel without incurring overtime and/or neglecting other activities.
- f. Because of the situation, the Agency is constantly pushing the date for cost-based budgeting ahead. This has happened so often that what little enthusiasm had been generated for cost-based budgeting has been dissipated. For example, the Agency adopted the policy of budgeting costs, first on selected indirect items such as printing and second on all costs including direct items. This second phase of budgeting was set for Fiscal Year 1961.

SUBJECT: Financial Management Program Emphasis

in three offices; only one office complied and the total cost budgeting experiment was not pursued. Meanwhile, plans were developed for Agency-wide cost budgeting beginning with Fiscal Year 1966. Because of inadequate cost accounting data and no basic experimental experience, the institution of internal cost-based budgeting has been postponed. Further evidence of the lack of enthusiasm in this field is the fact that agency personnel no longer desire to take the Comptroller cost course. Because we have not installed cost-based budgeting, the offices claim there is no practical value to be obtained from the cost course.

3. In view of the situation it is recommended the following actions be taken to clarify the Agency position on cost-based budgeting and to regenerate interest in financial management:

a. The Agency informally review its efforts towards cost-based budgeting with the Bureau of the Budget and secure the Bureau's concurrence to curtail cost-based budgeting activities until the Congress expresses a desire for such a budget. In the meantime, the Agency should devote its efforts toward improving the accounting procedures and records which provide the basic data for a cost-based budget.

b. The Comptroller discontinue the separate course on cost accounting but incorporate certain principles, such as indirect costing for printing, in the budget courses.

c. The Agency continue to accumulate actual costs on a current basis and a year end accrual as of 30 June. Thus we would have historical cost data for management use and for cost-based budgeting, if and when required, but would avoid costly accrual exercises during the year.

d. The Agency direct its financial management program emphasis toward:

(1) Strengthening the property procurement and control system; including inventory, pricing, and costing in order to develop good information on Agency resources.

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SUBJECT: Financial Management Progress Emphasis

- (2) Improving operational, cost and related data.
- (3) Streamlining its budget requirements and adopting machine methods to budgeting wherever possible.
- (4) Reducing the paper workload involved in accounting for personal services; also reducing the paper workload in office and field accounting.
- (5) Improving its financial code and cost structures and reporting systems to provide better and more timely financial data.

CONTROLLER POLICY PLANNING GROUP:

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_____ [redacted] Chairman

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_____ [redacted] Budget Division _____ [redacted] 25X1

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_____ [redacted] Finance Division _____ [redacted] Fiscal Division 25X1

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_____ [redacted] Comptroller's Office

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